Super-Money

By

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Edmonton, Alberta
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Preliminary Statement

IN the following pages the writer proves by actual facts, after discarding all economic theories, that it is mathematically impossible for the governing bodies in Canada, federal, provincial and municipal, to balance their budgets.

The total public "debt" of Canada grows each year by adding the "interest" to the previous "debt." The "interest" cannot be paid by taxes, and all attempts to do so result in strangling industry more and more. The "interest" can be paid only by issuing more securities each year.

When a governing body issues a public security it duplicates purchasing power already in existence. It does not "borrow" any money when it "sells" the security but, after creating money in the security itself, it exchanges one form of money for another in the "sale."

A public security is super-money, which not only has purchasing power the same as legal tender and bank-money, but it also guarantees the holder "interest" so long as he holds it and does not use it as money. Yet the "interest" cannot be paid by taxing production but only by creating more super-money.

Public securities are the source of bank-money, and the chartered banks are now full of this bank-money which has been created from public securities, and there is no possible use for it in the production and exchanging of goods. This bank-money is surplus purchasing power to those who hold it and is not needed to exchange any of the goods that are being produced, and it cannot be used without causing inflation.

If the Federal Government does not take steps at once to bring about monetary reform, the repudiation of all municipal and provincial securities is bound to happen within a very short time, and federal securities will follow later. Since it is mathematically impossible to pay any of the "interest" by taxing industry, so much more impossible is it to redeem any of the securities themselves by taxes.

In any effective plan for monetary reform the one essential factor is the stopping of the issuing of all public securities. The facts which are given herein prove this beyond question.

Edmonton, Alberta,
March, 1936.

W. H. COLLIER.

PART I

A STATEMENT OF FACTS

At the last annual meeting of the Canadian Bank of Commerce, Mr. S. H. Logan, the general manager, described what is meant by bank-money and how it is created, as follows:

"In Canada substantially the greater part of the bank-money in existence consists of the obligations of the chartered banks which are represented by the amount of their own notes in circulation and of the total deposits on their books.

"Bank-money is created by every payment which a bank makes in its own notes and every deposit entered on its books, whether received over the counter or credited by the bank to someone who has been granted a loan or has sold securities to the bank.

"Conversely, bank-money is extinguished when a bank redeems any of its outstanding obligations in legal tender, when it sells any of its security holdings for bank-money and when bank-money is used by a borrower as a payment of his loan."

1. According to Mr. Logan, therefore, bank notes in circulation and bank deposits are bank-money.

2. Bank-money, he says, is **created** whenever a deposit is entered on the bank's books, whether received over the counter in cash or credited by the bank to someone who has been granted a loan or has sold securities to the bank.

3. Further, according to the December, 1935, monthly bank statement, the chartered banks hold in their vaults over $1,200,000,000 of public securities, and these constitute the actual money which is credited to most of the cash deposits entered in their books. Legal tender and bank notes would make up the balance of the cash deposits, the total being some $1,600,000,000.

Therefore bank notes, legal tender and public securities are all accepted by the banks as money and credited to deposits.

4. Therefore, whenever a governing body in Canada, federal, provincial or municipal, issues a bond or debenture it **creates** the **source** of bank-money.

5. When the Federal Government last November issued $75,000,000 of bonds it **created** the **source** of approximately the same amount of bank-money.

6. If you bought a $1,000 bond of that issue and paid for it with a cheque you simply exchanged $1,000 of bank-money then existing for the **source** of $1,000 of new bank-money.

7. **You** had purchasing power in your former bank-money and you have as much or even more purchasing power in the bond.

8. At any time you can take your bond to the bank and the bank will credit you with approximately $1,000 of new bank-money.

9. That is, there is now $2,000 of bank-money in existence where there was but $1,000 before the bond was issued. The Government has been credited with $1,000 which was transferred from your deposit account and you have been credited with the new $1,000 which the Government has just created. But they are both bank-money with the same purchasing power as legal tender.

10. This is in accordance with the Bank Act, which authorizes the banks to "deal in" public securities. Therefore, whenever the Government issues new bonds it duplicates purchasing power (bank-money) already in existence.

11. If, in the exchange when you "bought" the bond, you received from the Government as much purchasing power in the bond as you gave the Government in bank-money, then you did not, as a matter of fact, loan the Government any money at all.

12. Did you not simply exchange bank-money in your cheque for a superior kind of money in the bond which the Government is paying you 3% per annum to hold, but which you can turn into new bank-mooney at any time you wish?

13. Is not the bond more valuable to you as money or purchasing power than either legal tender or bank-money? So long as you do not need to use your money the Government pays you to hold it.

14. Therefore, would not Super-money be a good name for public securities?

15. When, therefore, the Federal Government issued

the $75,000,000 of bonds last November it created super-money, and after exchanging it for bank-money it disbursed the bank-money leaving the super-money with the bondholders. Thus, it did not "borrow" any money or purchasing power from the bondholders. It first **created** the **source** of new bank-money and then exchanged the **source** for old bank-money. It created new purchasing power and exchanged an equal amount with the bondholders to what it received from them.

16. The Government secured $75,000,000 of purchasing power and it did not come through taxes or through producing and selling any goods. It had no **source** in goods or services. Neither did it come from the bondholders. Its **source** was completely in the bonds themselves. The Bank Act and the mere printing of the bonds gave the Government this new purchasing power just as effectively as if it had printed additional legal tender. The Government did not "borrow" any purchasing power from the bondholders. It created its own purchasing power.

17. Why is the Government paying 3% per annum to the bondholders? Have not the bondholders complete control of their $75,000,000 of purchasing power?

Can they not purchase goods or services with their bonds? Can they not "sell' them to the banks and have bank-money the same as if they deposited legal tender? Are they producing any goods with their money?

18. Let us return to the $1,200,000,000 of public securities which are now in the banks and the **source** of approximately the same amount of bank-money credited to deposit accounts. The governing bodies which issued them are paying the banks an average of 5% per annum on this amount under the mistaken idea that the people are using the money in some mysterious manner which no one has attempted to explain. Yet, is not the actual money itself here in the banks credited to the deposit accounts of individuals and corporations and lying absolutely idle?

The people of Canada have no use whatever for this money in the production and distribution of goods, and are not using it in any way, as shall be shown later.

19. The total "debt" of Canada amounts to some $7,000,000,000 with an annual "interest" charge of about 5%. This "debt" is made up of public securities issued by many

different governing bodies. Let us assume that all of these securities are "sold" to the banks at par values. Then there would be some $7,000,000,000 of bank-money credited to the deposit accounts of the present bondholders.

As there can be no question but that bank-money has the same purchasing power as legal tender, and since public securities are the source of bank-money; therefore, the holders of public securities of Canada hold about $7,000,000,000 of purchasing power now at par values. And the governing bodies who issued them are pledged to give the holders an additional $350,000,000 a year as "interest".

20. Where will the $350,000,000 of legal tender come from during 1936 to pay the holders so that all governing bodies may balance their budgets? As it is impossible to pay this "interest" in legal tender, some other form of money must be used. What form?

21. No matter in what form the governing bodies pay this "interest", will not the bondholders have $350,000,000 additional purchasing power at the end of 1936 to what they had at the beginning of the year?

22. Can you show in any way where the bondholders earn this $350,000,000 a year in the production of goods that can be exchanged for other goods which are produced by the rest of the nation?

23. As this "interest" is a pledge of payment made direct by the governing bodies and entirely separate from the general process of production, and as the bondholders produce no goods whatever in exchange for it, then is it not evident that the only way to pay it is by issuing new securities (super-money) each year?

24. Has this not been the way it has been done in the past? Take the last five years during which the total public "debt" has increased $1,500,000,000, that is, at an average rate of $300,000,000 a year which was also the average yearly "interest" on the previous debt. In spite of all the new taxes and public economies that have been devised have not the governing bodies found it impossible to get any part of this "interest" from production?

The General Process of Production

25. In the following paragraph Professor Gustav Cassel, the eminent Swedish economist, defines income and explains its relation to purchasing power:

"In regard to the aggregate production of the community the complaint of lack of purchasing power is, under all circumstancese, pure nonsense. It is clear that nothing in our economic structure necessarily leads to a lack of purchasing power in relation to the total actual production. **Income** is the remuneration which everyone receives in return for his co-operation in the general process of production. This definition covers also the profits of the entrepreneur, any loss being reckoned as negative income. The sum-total of all incomes thus defined is the total income of the community. It is equal to the sum-total of the remunerations received by all those participating in the process of production, and is thus equal to the total value of what is produced. Hence it follows that the total income suffices to purchase the total production. The popular notion regarding the insufficiency of the total issue is thus a fallacy."

According to Professor Cassel, therefore, during the production of goods just sufficient money is paid out by entrepreneurs to producers so that when the latter, as consumers and investors, spend it or invest it they can exchange (or buy) all the goods that have been produced, the money returning to the entrepreneurs.

The same money is used over and over again. It is first paid out by the entrepreneurs to producers by cheque or in cash for work or services in producing goods of all kinds. Then the producers become consumers and investors and buy the goods from the entrepreneurs, the money thus returning to where it started. Both capital goods and consumers' goods are thereby exchanged as money completes its cycle.

26. How much money, both cash and bank-money together, is needed in Canada for productive purposes?

In a bulletin "The National Income of Canada" published by the Dominion Bureau of Statistics, is given the total amount of production in Canada for each year from 1920 to 1931 inclusive. The average production for the twelve years was approximately $5,100,000,000 per year.

As we know from experience goods of all kinds, food, clothing, shelter and luxuries as well as capital goods, must be and actually are sold as soon as possible after they are produced, because they start at once to deteriorate, spoil or decay. Without going into detailed statistics let us say that the average time it takes to produce goods of all kinds

in Canada and sell them to consumers and investors is about one month. The money used for productive purposes, therefore, would make twelve complete cycles a year.

In order, therefore, to produce and exchange an average of $5,100,000,000 of goods a year, the only money required during the twelve years was an average of $425,000,000 of both cash and bank-money. This made a complete cycle once a month, on the average.

27. During the twelve years, therefore, the entrepreneurs of Canada paid out an average of about $14,000,000 a day, including their own profits, for the production of goods, and that money returned to them at the end of one month as they sold the goods to consumers and investors.

28. To summarize: During the twelve years, 1920-31, on the average:

(a) $14,000,000 of goods were produced daily.

(b) $14,000,000 of money (purchasing power) was distributed daily to producers for work and services in producing the goods, and this money constituted the total daily national income from production.

(c) This $14,000,000 of income was returned to the entrepreneurs daily one month later as the goods were sold to the producers and their dependents in their capacities as consumers and investors.

(d) Thus the entire process of production in Canada required only about $425,000,000 of legal tender and bank-money combined during the twelve years, as each dollar would complete a cycle on an average once a month.

This same process of production and exchanging of goods has been going on in Canada since long before Confederation, and is going on today. It is carried on by the initiative and labor of the individuals of the nation, and the so-called "borrowings" of the many governing bodies only interfere and play havoc with it.

29. Let us assume that during 1936 there will be also $5,100,000,000 (this amount is actually too large) of goods of all kinds produced in Canada and exchanged or sold, including exports, and that the average time it will take to produce and sell them will be one month. Therefore, $14,000,000 will be both the average daily income of the

nation from production, and its average daily outgo to purchase the goods produced, there being one month lapse of time between the income and the outgo of the same money.

Therefore, as in the twelve years, $425,000,000 of legal tender and bank-money will be all the actual money that will be required to produce and exchange the $5,100,000,000 of goods during the year, the money making twelve complete cycles.

30. There is no avoiding the fact that in Canada, as in other countries, the production of goods and their sale to consumers and investors is a continuous process, and that the law of supply and demand is the main factor regulating the quantity of goods which are produced during a year. Goods must be sold as soon as produced, and if any of the money which is paid out by entrepreneurs during the production of the goods is diverted and not used to buy the goods when they are ready for consumption and investment, then there necessarily results a deficiency of purchasing power and the process is more or less blocked and held up.

The Chronic Deficiency of Effective Purchasing Power

31. As previously stated, the governing bodies are pledged to pay each year direct to bondholders the "interest" on the super-money or securities that they hold. This "interest" will amount to about $350,000,000 for 1936.

In trying to balance their budgets and not issue more super-money the governing bodies are actually taking this "interest" from the incomes of producers by taxes and paying it to the bondholders. But the great majority of bondholders do not spend this money for goods as they do not need to do so. It is surplus purchasing power to them. Besides being bondholders they are producers as well, and earn through the regular process of production all the money that they spend for goods. The greater part of this $350,000,000 therefore, is hoarded.

32. Whatever part of this $350,000,000 is taken from the producers it directly lessens their purchasing power as consumers and investors by the same amount, and they cannot, therefore, exchange with one another all the goods that they have produced.

33. Does this not cause the apparent over-production, the stopping of industry and the consequent unemployment

that we are having in Canada? It reduces all industry to a minimum. Production is limited mostly to necessities of life.

34. Are not the governing bodies then compelled to make good this shortage of purchasing power by creating new super-money for relief grants and otherwise? Even to carry on the minimum production they must restore the effective purchasing power that they have taken away from the producers by taxes and given to the bondholders or all industry would be blocked.

35. As this $350,000,000 is surplus purchasing power given out direct by the governing bodies apart entirely from the money distributed by entrepreneurs, it is not needed to buy any of the goods produced, and therefore it is hoarded. If any of it is used to buy goods, then an equal amount of the purchasing power distributed by entrepreneurs is free to be hoarded. Therefore, the total surplus purchasing power, that is, the total public "debt", is increased each year by the new super-money that has to be created to pay this "interest".

Balancing of Budgets

36. It has been shown that the only way to pay the "interest" on the "public debt" is to issue more super-money.

Is it not evident, therefore, that it is mathematically impossible for the governing bodies to balance their budgets by taxing industry?

The total "public debt" of Canada has increased in the past, is increasing now and will continue to increase each year by an amount equal to the "interest" on the previous "debt" and by any other super-money that the governing bodies create.

The "public debt" is composed entirely of super-money or surplus purchasing power which has been created by the many governing bodies in the past and which has been paid out for no work or services in the production of goods of any kind, consumers' or capital.

Surplus Purchasing Power

37. Let us assume, as before, that the holders of the $7,000,000,000 of public securities (super-money) have

sold their securities to the banks at par value and are credited with $7,000,000,000 of bank-money.

None of this money is used in the general process of production. The entrepreneurs have their own money, or they can borrow from the banks as they need it entirely independent of bondholders, and they require only $425,000,000 to produce and distribute $5,100,000,000 of goods a year.

Therefore, none of this $7,000,000,000 of purchasing power is needed. There are no goods to be purchased with it. It is surplus purchasing power. As has been shown, during the production of goods sufficient money is distributed by the entrepreneurs to buy the goods for consumption and investment, and the money is returned to them. They use the same money over and over again. Their money circulates. It is use alternately to produce goods and to purchase the goods that have been produced thereby.

Should the bondholders start to use this surplus purchasing power to buy goods, where would prices go? Undoubtedly we would have tremendous inflation.

38. Likewise, the $350,000,000 of super-money that the governing bodies create and pay as "interest" each year to bondholders, and it is the only way they can pay it, is surplus purchasing power. There are no goods being produced to be purchased with it.

This "interest" is not paid out by or through entrepreneurs for any work or services in the production of goods, and, therefore, does not form any part of the costs or prices of the goods being produced, and therefore is not required to purchase them. The regular purchasing power distributed during their production is sufficient to exchange all the goods produced.

The Theory of the Public "Debt"

39. The paying of "interest" on the public "debt" is based upon a theory that the governing bodies have "borrowed" money (legal tender) from individuals who have "saved" it by refraining from buying and consuming goods that they were entitled to, and that the governing bodies are using the money on behalf of the people with which to buy goods, such as roads, bridges, public buildings, etc.

The theory completely disregards the facts that the individuals do not and have no intention of refraining from

buying and consuming goods when they "save" their money. They only postpone the buying and consuming of goods. They expect to use their money at some time in the future to buy goods then for their own satisfaction. They are not concerned with what becomes of the goods that have been produced and should be purchased at once with the same money they are "saving". They leave that for the government to worry over, and the theory is that the government "borrows" their "savings" and buys the goods they should have bought. This is a pernicious fallacy. While those who "save" do not buy goods now, yet they do not part with their purchasing power even when they "loan" their money to the government.

Thus, according to the theory, the governing bodies in Canada have in the past "borrowed" from a number of individuals some $7,000,000,000 of legal tender and must, in some way, pay the money back at some time in the future, and in the meantime must pay "interest" for the use of it.

Further, according to the theory, both the principal and the interest must be taken by taxes from the incomes of producers now and in the future, and be paid to the bondholders who are at liberty to hoard it, which they do as has been shown.

40. In order to balance budgets so that the public "debt" will not grow larger, it is necessary, therefore, that at least the "interest" be taken each year from the incomes of producers and given to the bondholders.

Since, however, the aggregate annual incomes of producers of goods exactly equals the costs or prices of all the goods produced during the year and, if $350,000,000 is taken from their incomes, is it not evident that there will be a deficiency of purchasing power of like amount when they, as consumers and investors, come to buy all the goods produced?

41. Furthermore, with $350,000,000 of money in the hands of bondholders but hoarded and not effective as purchasing power, and with $350,000,000 of goods in the market lacking purchasing power, are the governing bodies not forced to make good this lack by creating new super-money, then exchanging the super-money for the money that has just been paid as "interest" to the bondholders, and finally to pay out the money thus received in relief and

otherwise which will go to buy the goods that lack purchasing power?

Thus the total "debt" is increased each year by the "interest" on it, notwithstanding all the taxes that can be devised on industry. And the budgets of the governing bodies cannot be balanced.

Redemption of the Public "Debt"

42. As we have seen, according to the theory of the public "debt", the producers of Canada must pay the present holders of public securities at some time in the future $7,000,000,000 of money, and in the meantime must pay them "interest" on it. It is claimed that the governing bodies in Canada have "borrowed" this inconceivable amount of money from the bondholders and are using it for the benefit of the people.

Since money passes from hand to hand and does not disappear, where is this money now? Who has possession of it? What are the governing bodies or the people using it for?

The securities themselves are and ever were the only money back of this public "debt", and it is all in the hands of the bondholders themselves and was never out of their possession. Is it not evident, therefore, that the bondholders are being paid "interest" to hold their own money? They can "sell" their securities to the banks and be credited with bank-money exactly the same as if they deposit legal tender. Over $1,200,000,000 of these securities are in the tills of the banks now, and the former holders of them have on deposit a like amount of bank-money created from them.

The banks are clogged with this money and there is no possible use for it in the production and exchanging of goods. It is absolutely idle unless used for speculation and gambling among the holders themselves.

Yet, the theory is that the producers of Canada must be taxed in order to redeem these securities with money. Let us assume that all the governing bodies in Canada agree upon a joint plan to redeem these securities (the total national "debt") within the next twenty years. That is, they must collect from producers by taxes a total of $7,000,000,000 of money together with the "interest" on it and pay all to the bondholders and cancel the securities.

At the end of the twenty years what form of money will

the present bondholders then have? To whom will the producers sell their goods to get the money to pay the necessary taxes?

Is not the theory utterly absurd?

Inflation and Repudiation

43. There can be no doubt but if the government had printed and disbursed $7,000,000,000 of legal tender that our money would have become practically valueless. Prices would have gone very high and that would have been inflation.

But the governing bodies have printed and disbursed $7,000,000,000 of super-money which is guaranteed by them to give the holders the same purchasing power as if it were legal tender. In fact, each bond is a pledge or promise direct from the government to pay the holder legal tender.

It is becoming more and more evident in the minds of the people that this super-money (public securities) is inflation. It is surplus purchasing power because no goods have been produced or can be produced that may be purchased with it without causing inflation of prices. The whole nation is intuitively realizing this fact and are becoming more and more afraid of public securities. All over Canada the weakest ones, those issued by municipalities, are being repudiated. The repudiation of provincial securities is bound to follow, some having reached that stage already. And if the Federal Government continues to finance government "borrowings" as in the past, even Dominion bonds will go the way of the other securities.

A New Economic Law

44. As previously stated, the Federal Government, last November issued and "sold" $75,000,000 of bonds. It thereby **created** the **source** of $75,000,000 of new bank-money having the same purchasing power as legal tender. These bonds added $75,000,000 of new purchasing power to what was in existence before they were issued, although no goods were produced to be purchased by them. The bonds are super-money because they are more valuable to the holders as money than either legal tender or bank-money. The government did not borrow any purchasing power from the bondholders, as it gave as much as it re-

ceived. As a matter of fact, it only exchanged one form of money for another when it "sold" the bonds.

Similarly, whenever any of the other governing bodies issues public securities, super-money is created and as much purchasing power is given as received in the "sale" of the securities.

Therefore, this economic law follows:

The Government of a nation, having sovereign power to create money, cannot borrow money, because any instrument which it issues, such as a bond, a debenture or a treasury note, promising to pay money to the holder thereof, is money in itself.

45. To summarize step by step:

(a) When a governing body issues a public security it **creates** super-money and with it new purchasing power.

(b) It exchanges the super-money for bank-money that has been taken out of circulation and hoarded.

(c) It puts the bank-money back into circulation by disbursing it for relief, public works and otherwise, but does not produce any goods that can be exchanged for other goods while doing so.

(d) It does not **borrow** any money or purchasing power. It gives as much money or purchasing power in the security as it receives in bank-money when it "sells" the security.

(e) The holder of the security does not **lend** any money or purchasing power. He receives as much money or purchasing power in the security as he gives the governing body in bank-money when he "buys" the security.

(f) He can purchase goods or services with the security or he can "sell" the security to a bank for new bank-money, and either the security or the bank-money has the same purchasing power as legal tender.

(g) The governing body pays the holder of the security "interest" not for the use of his bank-money or purchasing power, but for him not to use his super-money or purchasing power. The super-money is

duplicate purchasing power which has been created but no goods have been produced for it to purchase.

(h) The total super-money or public "debt" in Canada amounts at present to approximately $7,000,000,000, and the "interest" charge on it approximates $350,000,000 for 1936.

(i) This "interest" can be paid in the long run only by creating new super-money. The attempts which all governing bodies are making to pay it by taking it out of the incomes of producers by taxes result only in creating a chronic deficiency of purchasing power for the producers in their other capacities as consumers and investors. The governing bodies then are compelled to make good the deficiency by creating new super-money.

(j) Thus, the total "debt" of Canada grows year by year by the amount of the "interest" on the previous "debt", and by any other super-money created during the year.

(k) It is mathematically impossible for the governing bodies in Canada to balance their combined budgets. All new attempts to balance them by additional taxes on producers result only in strangling industry more and more. During 1936 the total public "debt" will grow by at least the $350,000,000 "interest" on it.

(l) The growth can be stopped only by stopping the creating of super-money.

PART II

NATIONAL INCOME

The definition of "income" given by Professor Cassel which has been previously quoted, is one that all orthodox economists will agree with.

Simon Kuznets, the author of the article on National Income, in the Encyclopaedia of the Social Sciences, says:

"The National Income may be defined provisionally as the net total of commodities and services (economic goods) produced by the people comprising a nation; as the total of such goods received by the nation's individual members in return for their assistance in producing commodities and services; as the total of goods consumed by these individuals out of the receipts thus earned; or, finally, as the net total of desirable events enjoyed by the same individuals in their double capacity as producers and consumers. Defined in any one of these fashions national income is the **end product of a country's economic activity,** reflecting the combined play of economic forces and serving to appraise the prevailing economic organization in terms of its returns. Being thus a summary and appraisal notion rather than an analytical entity, **national income demands statistical measurement.**"

Again, Professor Alfred Marshall, the dean of English-speaking economists, describes the National Income very briefly as "the net sum-total of things and services produced."

Further, Adam Smith, the author of "Wealth of Nations," defined National Income nearly two hundred years ago, and it is one of the best definitions that have ever been given:

"The annual labor of every nation is the **fund which** originally supplies it with all the necessaries and conveniences of life which it annually consumes, and which consist always either in the immediate produce of that labor, or in what is purchased with that produce from other nations."

All these definitions emphasize the fact that labor precedes Income. Everyone must co-operate with his fellow producers in the general process of producing goods before he is entitled to share in the goods. Our economic system is supposed to arrange for this co-operation. Hence it is assumed that anyone who is in possession of money has con-

tributed his work or services in the general process of production, and that the money which he has is his remuneration for doing so. He is supposed to have earned the money by helping to produce good and then, having the money, he is entitled to select for his own use from the general assortment of goods in the market an equal value of goods to what he produced, and to exchange his money for them.

Thus, our economic system provides the ways and means so that anyone is able to exchange the goods that he produces for other goods, the money being the medium to facilitate the exchange.

Production

There are only two components that enter into all goods, materials and human activities, and in analyzing the production of goods we start with the materials in their natural state, such as the fish in the waters, the trees in the forest, the minerals in the earth and the elements that combine to form plant and animal life. All materials are gifts from Nature, and they enter our economic system free from any monetary costs, and from their entrance until they are sold to consumers and investors as finished goods all costs are for human activities. None of the costs is for materials.

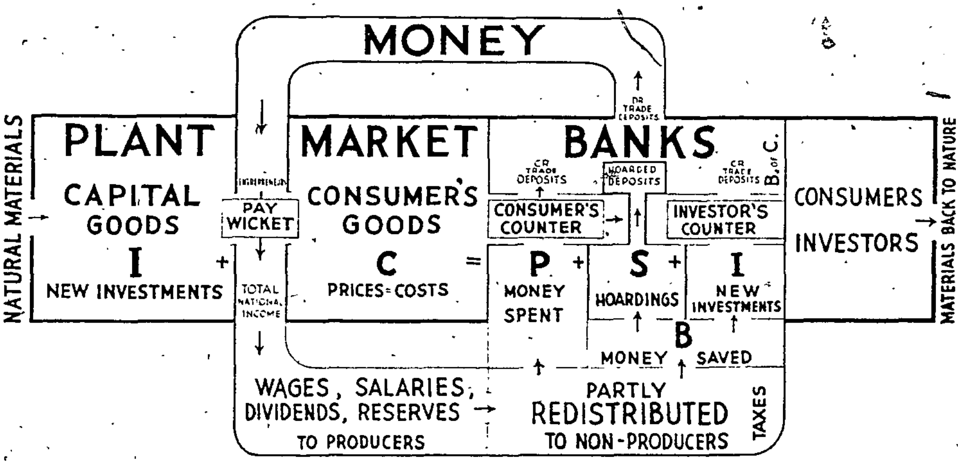
Therefore, considering the economic system of Canada as a unit, we can eliminate the cost-of-material component in arriving at the total cost of all goods that have been produced during any period of time. The costs of goods are entirely for work and services expended by individuals upon natural materials between the time of the entrance of the materials to the time the goods are sold to the consumers and investors.

Entrepreneurs

All these human activities which comprise the costs of goods require planning, organization and financing, which are done by entrepreneurs. They are the manufacturers, the wholesalers, the retailers and others. They are the master-producers as distinct from other producers who contribute only their labor and services. It is the entrepreneurs who finance the bringing into the economic plant the materials necessary for all goods. They pay for all work and services expended upon the materials in shaping them into useful goods, transporting and distributing them. All goods belong to entrepreneurs until they are finally sold to consumers and investors.

Goods may pass from one entrepreneur to another in different stages of their production. What is the finished product of one entrepreneur may be the **raw material** of another. Therefore, in the production of goods raw material when it is not direct from Nature is some natural material upon which work and services have been previously expended and paid for. The cost of this raw material is made up of all previous wages, salaries, dividends and reserves paid out by entrepreneurs for work and services of producers during its production. None of its costs is for the actual material in it. Raw material is only a stage in the production of any goods. It had to be produced in a previous operation and some entrepreneur paid out money for the work and services necessary to produce it.

Diagram of the Economic System



The Diagram

The diagram of the economic system indicates the flow of natural materials through production to consumers and investors and the corresponding flow of money from the banks back to the banks.

On the left free Natural materials are drawn into the Plant where both capital goods and consumers' goods are made up by the "form utilities," transported by the "place utilities," and distributed by the "possession utilities." The consumers' goods go to consumers and the capital goods

go to investors. All goods pass back to Nature as they are consumed or worn out.

Capital goods are used up or destroyed in the production of consumers' goods and their costs are passed on and become part of the costs of the later goods. It is impossible to draw a hard and fast line between the two classes of goods, as they often merge into one another, and from an economic standpoint, in arriving at the total costs of production, it makes no difference as both classes, in the long run, are paid for in the prices of consumers' goods; although capital goods are paid for at first by investments from "Money Saved."

Production is a continuous process. Natural materials are constantly being drawn into the Plant, made into goods, transported and distributed in the Market by individuals as producers. Money, taken from the banks by entrepreneurs, is distributed or allotted at the Pay Wicket to the producers as Wages, Salaries, Dividends and Reserves during the process of production of both capital goods and consumers' goods; New Investment (I) being the amount paid out for work and services expended upon capital goods, and Costs (C) the amount expended upon consumers' goods including upkeep of Plant and profits. These two (I plus C) make up the total National Income. Much of this money is redistributed to non-producers for varied personal and professional services, taxes and for other reasons and causes. It is then divided into two parts, part P being Money Spent over the Consumers' Counter and part B being Money Saved.

By Money Saved is meant money that comes from the Pay Wicket but is not spent for Consumers' Goods. Therefore we have the mathematical identity equation, I plus C equals P plus B. $(I+C=P+B)$.

But we know that New Investments (I) comes from Money Saved. Therefore, by taking I from B the remainder will be money that is neither spent for Consumers' Goods nor invested in Capital Goods, and we shall let this remainder be represented by S and call it Hoardings. That is: $B-I=S$; $\therefore B=S+I$.

By substituting $S+I$ for B in the identity equation we have $I+C=P+S+I$, and cancelling the I from both sides we have $C=P+S$.

Thus, it is seen that Hoardings (S) comes from Costs

(C) of Consumers' Goods and causes a deficiency of purchasing power at the Consumers' Counter.

It is intended by our Economic System and so supposed that, during the general process of production, just sufficient money is being paid out or allotted by the entrepreneurs to producers at the Pay Wicket to permit all consumers' goods to pass into the hands of consumers and capital goods into the hands of Investors, as all the money is returned to the entrepreneurs over the two Counters. The producers and the individuals to whom their incomes are partly redistributed become the consumers and investors. In the diagram the Trade Deposits are the accounts of the entrepreneurs in the banks.

Hoardings

As has been proven mathematically, if any part of the Total National Income be hoarded, that is, neither spent for consumers' goods nor invested in capital goods, there necessarily results a deficiency of purchasing power at the Counters equal to the amount so hoarded. In the diagram "Hoardings" is represented by the letter S.

The Growth of the Public "Debt"

At the beginning of 1936 the public "debt" of Canada was approximately $7,000,000,000, comprising public securities which have been issued by several thousand governing bodies. The "interest" for 1936 will approximate $350,000,000.

With the help of the diagram the growth of the public "debt" can be clearly explained and demonstrated:

(a) During 1936 the governing bodies will take by taxes the $350,000,000 from the incomes of producers between the Pay Wicket and the Counters and pay it to the holders of public securities as "interest".

(b) It will be taken out of circulation as the holders will put this money into Hoarded Deposits.

(c) This will create a deficiency of purchasing power of similar amount since just sufficient money will be put into circulation at the Pay Wicket in the production of goods during the year that will be required at the Counters to purchase them for consumption and investment.

(d) The governing bodies then will be forced to make good the deficiency. They must put back into circulation through relief grants, public works and otherwise what they took out to pay the "interest" and was hoarded.

(e) To do this they will create super-money (securities) and exchange the super-money for bank-money from Hoarded Deposits and then disburse the bank-money, thus putting back into circulation what they had taken out. The holders will only hoard their "interest" for a few months before it will be exchanged for super-money.

(f) Therefore, as a matter of fact, the "interest" will be paid by super-money, and at the end of 1936 the public "debt" will be increased by the amount of "interest" on it. There is no other way of paying the "interest".

(g) This method of paying the "interest" for 1936 will be a repetition of the way it has been done year by year in the past. Take the last five years: the average "interest" amounted to about $300,000,000 per year, and it was all paid by creating super-money, the public "debt" increasing during the five years by $1,500,000,000. This is a matter of record.

It is claimed by many economists and quite generally believed that most of our present public "debt" grew out of the costs of the war, for the keeping of our soldiers in France and the supplying of munitions, etc. This is entirely erroneous.

True, a great amount of super-money was created during the years of the war, but it went to pay the tremendous profits of a comparatively few manufacturers, and especially of the financers who arranged the public "borrowings," but not for the real costs of the war. The real costs were paid for during the war.

While our soldiers were giving their services and lives in France, the workers at home were producing and supplying all the munitions of war as well as all food, clothing, shelter and luxuries required by the soldiers and their families, and at the same time they were exchanging with one another all the other goods that they were producing.

All the goods that were produced in Canada during the four years of war, including munitions, were exchanged or

destroyed soon after they were produced, the same as all goods that are being produced now are being exchanged (sold) soon after they are completed. If they were not the entrepreneurs would stop producing them.

And as the sole function of money is to facilitate the exchange of goods for goods, why should there remain now any public "debt" due to the war? The public of Canada have no goods that were produced during the war or at any other time in their possession now that can be purchased by the holders of the "debt" in exchange for it.

The $7,000,000,000 of public "debt" is surplus purchasing power which has been issued by the governing bodies in the past as duplicate purchasing power, and neither the "debt" itself nor the "interest" on it can be paid by taxing the producers of today or of the future. All attempts to do so will only continue to strangle industry as they have done in the past and are doing now.

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PART III

A PLAN FOR MONETARY REFORM

In any plan for monetary reform the most important factor to be considered is "time".

A nation lives and can only live by producing goods and getting them exchanged for one another as may be necessary to assort them into the possession of the people who need them, and the sole function of money is to facilitate this exchange of goods for goods.

As soon as goods are produced they must be exchanged (sold) because they immediately begin to deteriorate. Nature supplies all the materials that man uses in the production of goods and she supplies them free of any monetary costs, but she only loans them. She wants them back again and she has her own means of getting them back into their primitive state. If Man does not make full use of the materials while he has them in the shape that he can use them, well "it is just too bad for Man." Nature's laws are inexorable.

In planning monetary reform, therefore, let us keep constantly in mind this factor of "time." Goods that are being produced today should be exchanged for other goods that likewise are being produced today as nearly as possible.

To do this Money must be kept moving between the Pay Wicket and the Counters, and prevented from going into Hoardings.

The following is an outline of a plan for monetary reform that the writer has worked out in considerable detail, but the details cannot very well be given here:

1. The creation and issuing of all money or purchasing power to be directly under the control of the Federal Government.
2. An Economic Council with representation from all the Provinces for advisory purposes.
3. To stop the creation of super-money. That is, no governing body to be permitted to issue and "sell" public securities in order to "borrow" money for public purposes.
4. To nationalize the chartered banks only to the extent of limiting the dividends on their capital stock to a fixed rate and all surplus profits to be paid over to the Government yearly. But otherwise to leave all management and operations as they are.
5. The banks to pay no interest on deposits, but on the contrary, if found advisable, to charge depositors for the services of the banks.
6. All present outstanding public securities to be "sold" to the banks for bank-money within the next five years at prices for each specific issue to be determined either by the Economic Council or by a special commission. The Government to guarantee the banks against any loss, if necessary, but there will be none as there will be no further "interest" to pay.
7. Hereafter to pay for all public works and services as we go, and no public "debt".

   In actual practice even now, while men are giving their labor and services in producing goods for public purposes, other men are producing food, clothing, shelter and luxuries which are exchanged to provide the necessities and comforts for all. Therefore, let us devise a system of taxation that will provide the exchanging of goods for public purposes for other goods which are being produced at the same time.
8. To provide adequate pensions for all over 60 years of age who wish to retire from active business.
9. To provide adequate unemployment insurance and also health insurance for all.

A New Economic Law

"The Government of a nation, having sovereign power to create money, cannot borrow money, because any instrument which it issues, such as a bond, a debenture or a treasury note, promising to pay money to the holder thereof, is money in itself."